



Issue Date March 1, 2012
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Audit Report Number 2012-CH-1005
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TO: Jon L. Gant, Director of Healthy Homes and Lead Hazard Control, L

FROM: //signed//  
Kelly Anderson, Regional Inspector General for Audit, 5AGA

SUBJECT: The State of Wisconsin's Department of Commerce Needs To Improve Its Oversight of Its Lead-Based Paint Hazard Control Recovery Act Grant

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the State of Wisconsin's Department of Commerce's<sup>1</sup> Lead-Based Paint Hazard Control program under the American Recovery and Reinvestment Act of 2009. The audit was part of the activities in our fiscal year 2011 annual audit plan. We selected the State for review based on a citizen's complaint forwarded to our office from the U.S. Department of Commerce's Office of Inspector General (OIG). Our objective was to determine whether the State ensured that its subrecipients (1) awarded Recovery Act grant funds to eligible property owners and (2) complied with the U.S. Department of Housing and Urban Development's (HUD) and its own requirements.

### **What We Found**

The State did not always ensure that its subrecipients awarded Recovery Act grant funds to eligible property owners and complied with HUD's and its own

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<sup>1</sup> The State of Wisconsin's Department of Commerce's functions were transferred to the State of Wisconsin's Department of Administration's Division of Housing in July 2011; therefore, the recommendations will be addressed to the Division of Housing. The audit report represents the activities of the State of Wisconsin's Department of Commerce.

requirements. Specifically, it did not ensure that its subrecipients (1) awarded grant funds to property owners that were current with their property taxes, (2) ensured that property owners gave priority to families with a child under 6 years of age in the rental of housing units, (3) maintained sufficient or complete documentation to support that they performed independent price estimates before receiving bids for construction services, or (4) maintained sufficient documentation to support that six households were income eligible to receive grant funds. As a result, a State subrecipient inappropriately awarded \$53,919 in grant funds to property owners that were not eligible to receive grant funds, and HUD and the State lacked assurance that families with a child under 6 years of age had priority in the rental of housing units that received Federal assistance.

The complainant's allegations regarding the State's Lead-Based Paint Hazard Control program, in particular the procurement of contracts for risk assessment services, were not substantiated by the results of this audit.

### **What We Recommend**

We recommend that the Director of HUD's Office of Healthy Homes and Lead Hazard Control require the State to (1) reimburse its program \$53,919 from non-Federal funds for the grant funds awarded and expended to assist the two ineligible property owners, (2) amend its implementation manual in accordance with its work plan to include the requirement that property owners' property taxes be current, and (3) establish procedures and controls to ensure that property owners give priority in renting housing units for not less than 3 years following the completion of lead abatement activities to families with a child under 6 years of age.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-4. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We provided our review results and supporting schedules to the Director of HUD's Office of Healthy Homes and Lead Hazard Control and the State during the audit. We also provided our discussion draft audit report to the State and HUD's staff during the audit. We held an exit conference with the State on January 30, 2012.

We asked the State's program manager to provide written comments on our discussion draft audit report by February 6, 2012. The State's program manager provided written comments, dated February 6, 2012. The program manager partially

agreed with our findings and recommendations. The complete text of the written comments, except for the 14 pages of supporting documentation that were not necessary for understanding the program manager's comments, along with our evaluation of that response, can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVE**

The U.S. Department of Housing and Urban Development's (HUD) Office of Healthy Homes and Lead Hazard Control was established in 1991 to eliminate lead-based paint hazards in America's privately owned and low-income housing. The purpose of the Lead-Based Paint Hazard Control grant program is to identify and control lead-based paint hazards in eligible privately owned housing for rental or owner-occupants.

The American Recovery and Reinvestment Act was signed into law on February 17, 2009. The Recovery Act is an effort to jumpstart the economy, create or save jobs, and address neglected challenges. It includes measures to modernize the Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in great need.

The Recovery Act provided \$100 million to Healthy Homes to provide funds to State and local governments and academic and not-for-profit firms to develop cost-effective ways to reduce lead-based paint hazards and other health hazards in the home environment that produce serious diseases and injuries in children. Healthy Homes awarded nearly \$78 million in Recovery Act funds to 30 grantees in the form of Lead-Based Paint Hazard Control grants.

Healthy Homes awarded the State of Wisconsin's Department of Commerce a \$3 million Lead-Based Paint Hazard Control Recovery Act grant in April 2009. According to the Recovery Act, the State was required to expend 50 percent of the funds within 2 years and fully expend the funds within 3 years. The State planned to allocate \$2.8 million in Recovery Act grant funds to its 17 subrecipients<sup>2</sup> and the remaining \$200,000 for administrative expenses.

As of November 2011, more than \$2.6 million of the \$2.8 million in grant funds had been awarded to the State's 17 subrecipients. The State's subrecipients awarded the grant funds to 127 property owners to assist with the reduction of lead-based paint hazards in their properties. The table below illustrates how the grant funds were allocated among the subrecipients.

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<sup>2</sup> Subrecipients consist of local units of government, Community Development Block Grant grantees and entitlements, and HOME Investment Partnerships Program subrecipients. The subrecipients are responsible for reviewing applications, selecting eligible properties and households, procurement of risk assessment and construction services, and securing the assistance with the property owners in the form of forgivable mortgages. The State provides training and guidance and conducts monitoring reviews to ensure that the subrecipients meet HUD and Recovery Act requirements.

<b>Subrecipients</b>	<b>Amount awarded</b>	<b>Number of properties assisted</b>
City of Appleton	\$360,000	29
Chippewa County Housing Authority	264,000	19
City of La Crosse	165,000	6
City of Ashland	170,684	6
Central Wisconsin Community Action Agency	84,000	2
Clark County Housing Authority	120,000	6
Couleecap, Inc.	471,960	23
Neighborhood Housing Services of Richland County	72,000	5
Options for Independent Living, Inc.	40,624	2
Ozaukee County Public Health Department	33,560	2
Partners for Community Development, Inc.	100,000	5
Project Home, Inc.	120,000	3
Racine-Kenosha Community Action Agency	119,300	7
Southwestern Wisconsin CAP, Inc.	68,793	1
Waukesha County	295,000	3
West Central Wisconsin CAP, Inc.	50,063	2
City of Waukesha	155,000	6
<b>Totals</b>	<b>\$2,689,984<sup>3</sup></b>	<b>127</b>

We selected the State for review based on a citizen's complaint forwarded to our office from the U.S. Department of Commerce's Office of Inspector General (OIG). The complaint alleged unfair procurement practices with regard to the State's Lead-Based Paint Hazard Control program, in particular the procurement of its contracts for risk assessment services. Based on our review of the State's procurement of its risk assessment services contracts, the complainant's allegations were unsubstantiated.

Our objective was to determine whether the State ensured that its subrecipients (1) awarded Recovery Act grant funds to eligible property owners and (2) complied with HUD's and its own requirements.

<sup>3</sup> The State had not awarded the remaining \$110,016 in available funds to a subrecipient as of November 2011.

## RESULTS OF AUDIT

### Finding: The State Did Not Always Ensure That Its Subrecipients Complied With Recovery Act, HUD's, and Its Own Requirements

The State did not always ensure that its subrecipients complied with Recovery Act, HUD's, and its own requirements. Specifically, it did not ensure that its subrecipients (1) awarded grant funds to property owners that were current with their property taxes, (2) ensured that property owners gave priority to families with a child under 6 years of age in the rental of housing units, (3) maintained sufficient or complete documentation to support that they performed independent price estimates before receiving bids for construction services, or (4) maintained sufficient documentation to support that six households were income eligible to receive grant funds. The problems occurred because the State's procedures and controls to ensure that its subrecipients awarded funds to eligible property owners had weaknesses. Further, its monitoring and oversight of its subrecipients were insufficient to ensure compliance with Recovery Act, HUD's, and its own requirements. As a result, a State subrecipient inappropriately awarded \$53,919 in grant funds to property owners that were not eligible to receive grant funds, and HUD and the State lacked assurance that families with a child under 6 years of age had priority in the rental of housing units that received Federal assistance.

#### **A State Subrecipient Awarded Grant Funds to Property Owners That Were Not Eligible**

The City of Waukesha, a State subrecipient, awarded grant funds to property owners that were not eligible to receive assistance. In January 2011, two property owners submitted applications to the City of Waukesha requesting financial assistance under the State's Recovery Act grant. However, both property owners' 2008 property taxes were delinquent at the time they applied for assistance. The City awarded a total of \$53,919 in grant funds to the two property owners. According to the State's work plan, property taxes on the assisted unit(s) must be current, or if there are arrearages, an agreement for repayment must be in place with the county treasurer's office (see appendix C).

The County of Waukesha treasurer's property tax records indicated that the property owners owed \$5,264 and \$3,437 in delinquent property taxes, respectively, and were still delinquent as of January 10, 2012. According to a county clerk, if the property owners do not pay their delinquent property tax liability by July 2012, the County of Waukesha treasurer's office will initiate foreclosure action on the two properties.

The City of Waukesha's housing rehabilitation specialist said that he was not aware of the State's work plan requirement. Therefore, he did not check the property tax status of the two assisted properties before awarding the grant funds to the property owners. Additionally, the State's implementation manual did not indicate that assisted property owners' property taxes must be current. According to the State's program manager, since being current on the property taxes was not a HUD requirement and grant funds were used to clear lead hazards from the two properties, the two properties were eligible to receive assistance.

As a result of our audit, the property owners paid the delinquent property taxes on January 26 and January 31, 2012, respectively.

**A State Subrecipient Was Unable To Document That Priority Was Given To Families With A Child Under 6 Years of Age**

The City of Appleton, a State subrecipient, awarded \$21,806 in Recovery Act grant funds to a property owner to provide assistance for two housing units in a three-unit rental property. The construction work on the two housing units was completed in January 2010; however, the housing units were occupied in January and June 2010, respectively, by households with no children. The property owner signed a certification indicating that the property owner agreed to give priority to families with children under 6 years of age for the first 3 years following the completion of the lead abatement work. However, the owner could not provide documentation to show that priority was given to families with children under 6 years of age for the two assisted units. According to section III(C)(4) of HUD's 2008 Notice of Funding Availability for the Lead-Based Paint Hazard Control grant program, property owners must give priority to families with a child under the age of 6 years for not less than 3 years following the completion of lead abatement activities (see appendix C).

The State's program manager and the previously mentioned subrecipient indicated that property owners were provided verbal instructions on how to give priority in renting their assisted housing units to families with children under 6 years of age. For example, the property owners were instructed to contact the local housing authorities for referrals or place advertisements on a Wisconsin community service Web site. However, neither the State nor the subrecipient had written policies or procedures for ensuring that the property owners met this requirement. Further, two property owners that received assistance from another two of the State's subrecipients, the Clark County Housing Authority and Neighborhood Housing Services of Richland County, acknowledged that they were either not aware that priority in renting the assisted housing units had to be given to families with a child under 6 years of age or thought that priority had to



be given for some but not all of their assisted housing units. These two subrecipients awarded the grant funds to the property owners; however, the construction work had yet to be completed for one property, and the housing units for the other property were vacant as of November 2011.

### **State Subrecipients Did Not Always Maintain Adequate Procurement or Household Eligibility Documentation**

The State did not ensure that its subrecipients maintained adequate documentation to support its procurement activities or that assisted households were income eligible to receive assistance. Four of the State's subrecipients, the City of Ashland, the City of Appleton, Neighborhood Housing Services of Richland County, and Southwestern Wisconsin CAP, Inc., were unable to provide documentation to support that they performed independent costs estimates before receiving bids for construction services for 10 assisted properties, collectively. As a result of our audit, the subrecipients performed the independent cost estimates after the contracts were awarded to support that the costs of the construction contracts for the 10 assisted properties were reasonable.

Three subrecipients, the City of Ashland, the City of Appleton, and the Neighborhood Housing Services of Richland County, initially were unable to provide adequate documentation to support that four property owners' assisted housing units were occupied by tenants who were income eligible. As a result of our audit, the subrecipients obtained the required documentation to support that the households were income eligible.

### **The State Needs To Improve Its Procedures and Controls**

The problems described above occurred because the State's procedures and controls to ensure that its subrecipients awarded funds to eligible property owners had weaknesses. Further, its monitoring and oversight of its subrecipients was insufficient to ensure compliance with Recovery Act, HUD's, and its own requirements. The State conducted a training seminar to inform the subrecipients of the Recovery Act grant requirements before the grants were awarded. It also distributed an implementation manual to the subrecipients; however, the manual did not contain the State's requirement that property owners' property taxes be current. It also did not provide guidance on how to implement the requirement that rental property owners give priority to families with a child under the age of 6 years for not less than 3 years following the completion of lead abatement activities.

According to the State's program manager, a checklist was used when performing monitoring reviews of its subrecipients. However, the checklist did not include a review of the status of a property owner's property taxes and whether property owners gave priority to families with a child under 6 years of age.

## **Conclusion**

The State did not always ensure that its subrecipients complied with Recovery Act, HUD's, and its own requirements. The problems occurred because the State's procedures and controls to ensure that its subrecipients awarded funds to eligible property owners had weaknesses. Further, its monitoring and oversight of its subrecipients was insufficient to ensure compliance with program requirements. As a result, a State subrecipient inappropriately awarded \$53,919 in grant funds to property owners that were not eligible to receive grant funds. Further, HUD and the State lacked assurance that families with a child under 6 years of age had priority in the rental of housing units that received Federal assistance.

## **Recommendations**

We recommend that the Director of HUD's Office of Healthy Homes and Lead Hazard Control require the State of Wisconsin's Department of Administration's Division of Housing to

- 1A. Reimburse its program \$53,919 from non-Federal funds for the grant funds awarded and expended to assist the two ineligible property owners.
- 1B. Amend its implementation manual in accordance with its work plan to include the requirement that property owners' property taxes be current.
- 1C. Establish and implement procedures and controls to ensure that property owners give priority in renting housing units for not less than 3 years following the completion of lead abatement activities to families with a child under 6 years of age.

## SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; regulations; the State's work plan and implementation manual; HUD's requirements at 24 CFR (Code of Federal Regulations) Parts 5, 35, and 85; HUD's Fiscal Year 2008 Notice of Funding Availability; the Residential Lead-Based Paint Hazard Reduction Act of 1992; the Recovery Act; and the State's grant agreement with HUD.
- The State's and subrecipients' financial records, assisted household and property files, and procurement files.
- HUD's monitoring review of the State.

We also interviewed the State's and the subrecipients' employees and HUD staff, property owners and households, and contractors.

### **Finding**

We randomly selected 9 of the State's 17 subrecipients. Of the 9 subrecipients, we reviewed property files for 23 of the 95 properties that had been provided financial assistance as of April 2011.<sup>4</sup> The subrecipients awarded \$743,980 in Recovery Act grant funds to the 23 assisted properties.

We used the State's financial electronic records to determine that 95 properties had been provided financial assistance as of April 2011. Although we did not perform a detailed assessment of the reliability of that data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes. To support the audit findings and conclusions, we relied on hardcopy documentation maintained in the State's subrecipients' files.

We performed our onsite audit work between April and July 2011 at the State's central office located at 201 West Washington Avenue, Madison, WI, and the subrecipients' offices located at various locations throughout Wisconsin. The audit covered the period April 14, 2009, through January 31, 2011, but was expanded when necessary.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

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<sup>4</sup> The number of properties that received assistance had increased to 127 as of November 2011.

# INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness and efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws or regulations on a timely basis.

## Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The State lacked adequate procedures and controls to ensure that its subrecipients complied with Recovery Act, State, and Federal requirements regarding awarding Recovery Act grant funds (see finding).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1A	<u>\$53,919</u>
Totals	<u>\$53,919</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowed by law; contract; or Federal, State, or local policies or regulations.

## Appendix B

### AUDITEE COMMENTS AND OIG's EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments

February 6, 2012

Anthony Smith  
Assistant Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
477 Michigan Avenue, Room 1780  
Detroit, MI 48226

Dear Mr. Smith:

Thank you for the opportunity to respond to the draft audit document on January 19, 2012. We appreciate the cooperation and commitment of the individuals who visited our State office, as well as our subgrantees, while performing the audit.

The State of Wisconsin's Lead Hazard Control Grant application was submitted for funding through the 2008 NOFA but was not approved. The application was subsequently funded through the American Recovery and Reinvestment Act (ARRA) in 2009. The contract for the program was signed in April 2009.

As noted in the draft Audit, the audit was initiated on March 2, 2011, as the result of a citizen complaint alleging unfair procurement practices with regard to the procurement of contracts for risk assessment services. That complaint was found to be without merit.

The draft audit contains three recommendations to HUD's Office of Healthy Homes and Lead Hazard Control. The Division of Housing would like to take this opportunity to address each of those recommendations.

*1A. Reimburse its program \$53,919 from non-Federal funds for the grant funds awarded and expended to assist the two ineligible property owners.*

#### **Comment 1**

The Division disagrees with the statement in the recommendation that these two households were ineligible and, therefore, funds should be repaid. The households residing in the two City of Waukesha assisted units in question:

- Are income eligible (household income <80 percent of county median income);
- Hold title to the property and occupy it as their primary residence;
- Have children under 6 in the household;
- The properties were identified as containing lead hazards as a result of Risk Assessment.

The intent of the Lead-Based Paint Hazard Control Grant Program is to identify and control lead-based paint hazards in eligible privately owned rental or owner-occupied property. The 2008 NOFA defined eligible owner-occupied housing as being the principal residence of families with income at or below 80 percent of the area median income level, occupied by a child under the age of six years or where a child under the age of six years spends a significant amount of time visiting.

In the case of the Cook Street property, the outstanding 2008 taxes were the responsibility of the previous owner. The current owners have paid their property taxes (2009 and 2010) since taking ownership of the property. The program administrator has information showing payment of those taxes on December 29, 2009, and December 27, 2010. Both receipts indicate there is no tax remaining (See attachments).

The homeowners of the Harrison Avenue property show a similar record of tax payment. Records from the County Treasurer's office indicate that the 2009 taxes were billed on December 15, 2009, and paid in full on December 29, 2009. The 2010 taxes were billed December 01, 2010, and paid on December 27, 2010. The record also shows payment in full of 2011 taxes on December 28, 2011. The homeowner indicated they would pay the 2008 outstanding taxes and worked with their mortgage lender to make the payment. The record indicates that debt was paid on January 31, 2012 (See attachments).

The program Work Plan indicates that property taxes must be current or, if there are arrearages, an agreement for repayment must be in place with the County Treasurer's Office. In both cases cited, the property owners two most recent years property taxes were current. Neither the HUD Program requirements nor the Work Plan indicate that an investigation of property tax payments must go back beyond the most recent year.

The resolution proposed is to include language regarding property taxes in the Implementation Manual (see 1B following). The Division concurs with the draft audit statement that the LHC program Implementation Manual did not contain specific information regarding the status of property taxes, and concurs with the recommendation to change the Manual. However, even if the Implementation Manual had contained the 1B recommended language, a reference specific to

## Comment 2



**Comment 3**

checking property taxes for the most recent year would not have yielded information to support the 1A recommendation, because a check to ensure that property owners' property taxes are current would have showed taxes paid timely with "no outstanding balance."

*1B. Amend its implementation manual in accordance with its work plan to include the requirement that property owners' property taxes be current.*

The Division concurs with the recommendation. The LHC Implementation Manual will be revised to add a statement on page I-5, **Housing Assistance Applications**, Financial Information: *Verify status property taxes. Property taxes must be current or property owners must have a plan in place to bring taxes current.*

*1C. Establish procedures and controls to ensure that property owners give priority in renting housing units for not less than 3 years following the completion of lead abatement activities to families with a child under 6 years of age.*

The Division concurs with the recommendation that additional procedures be added to the Implementation Manual regarding rental compliance. The State's Work Plan and HUD's Program requirements both reference landlord's giving priority in renting units for not less than 3 years following the completion of lead activities to families with a child under the age of six years. All subgrantees were provided implementation training at the beginning of their contracts where the Implementation Manual was reviewed. The LHC Implementation Manual does state that subgrantees are responsible for reporting information on households assisted and states that landlords must agree to give priority in renting to households with children under 6 for three years. The landlords are verbally informed of the requirement by subgrantees and sign a statement to the effect that they will comply. HUD program requirements provide no direction specific to the timing of verifying compliance when assisted units are vacant.

The units discussed as having inadequate documentation on tenants were vacant at the time lead hazard reduction work was undertaken. The landlords did rent to income eligible tenants and subgrantees did obtain the supporting documentation. Subgrantees establish a schedule for annual compliance checks with an

**Comment 4**

expectation that landlords will retain information on rent-up in their files. That expectation was met; landlords provided information upon request.

To meet the requirement of this recommendation, a checklist will be added to the initial compliance statement the landlord signs. The checklist will be turned in to the subgrantee at the time of unit rent-up. (See attachment.) Subgrantees will be instructed to contact landlords quarterly for updates on vacant units to ensure information is obtained in a timely manner.

The LHC Implementation Manual will be revised to add information on page I-3, **Rental loans:** *Landlords must agree to give priority in renting to households with children under 6 years of age for three years following the completion of the LHC assistance (Attachment 8 Landlord Commitment). Landlords must provide the Grantee with documentation of compliance; submission of the completed Checklist attached to the Landlord Commitment is acceptable. When vacant units are assisted, Grantee will follow-up with Landlord on a quarterly basis until units have been rented and annually thereafter for three years to ensure priority in renting to households with children under 6 years of age.*

Once again the Division of Housing is grateful for the opportunity to respond to the draft report. We believe that the measures listed under each recommendation should be sufficient to resolve the OIG's concerns.

Sincerely,

Betty Kalscheur  
Program Manager  
Wisconsin Lead Hazard Control Program

cc: Lisa Marks, Administrator, Division of Housing  
Marty Evanson, Bureau Director, Division of Housing  
Rogelio Martinez, HUD-OIG/Audit

Attachments

### **OIG Evaluation of Auditee Comments**

- Comment 1** We do not agree. After reviewing the documentation provided, we acknowledge that as a result of our audit, the delinquent tax amounts have been paid. But, at the time of the application process, both property owners were delinquent in their property taxes. This would make the properties ineligible for assistance in accordance with the State's work plan and deemed the \$53,919 an ineligible expense.
- Comment 2** We do not agree. As indicated in the State's response, the work plan indicates that property taxes for assisted properties must be current or, if there are arrearages, an agreement for repayment must be in place with the County Treasurer's Office. However, the work plan does not state that property taxes must only be current for the two most recent years.
- Comment 3** The State did not provide a copy of the updated Implementation Manual. Therefore, we did not change our recommendation for HUD to require the State to amend its implementation manual in accordance with its work plan to include the requirement that property owners' property taxes be current.
- Comment 4** We reviewed the checklist, provided by the State with its comments to the discussion draft audit report. The checklist requires property owners to certify their method(s) of advertisement used to market the assisted unit(s) to families with children less than 6 years of age. It also requires property owners to provide proof of the method of advertisement. We commend the State for initiating corrective action; however, until this process is fully implemented, the recommendation in the audit report will remain.

## **Appendix C**

### **FEDERAL REQUIREMENTS AND THE STATE'S WORK PLAN**

#### **Finding**

HUD's regulations in its Fiscal Year 2008 Notice of Funding Availability (Docket no. FR-5200-N-01 A) state that applicants should describe in their work plan policies and procedures for procurements, unit eligibility, unit selection, and prioritization. Grantees, subcontractors, subgrantees, subrecipients, and their contractors must follow these policies and procedures.

HUD's regulations in its Fiscal Year 2008 Notice of Funding Availability (Docket no. FR-5200-N-01 A) state that for grants made to assist rental housing, at least 50 percent of the units must be occupied by or made available to families with incomes at or below 50 percent of the area median income level; the remaining units must be occupied or made available to families with incomes at or below 80 percent of the area median income level; and in all cases, the landlord shall give priority in renting units assisted under this section, for not less than 3 years following the completion of lead abatement activities, to families with a child under the age of 6 years.

The State's grant agreement, section 1, states that the provisions of the notice of funding availability are hereby incorporated into the grant agreement.

Section 2 of the grant agreement states that the State will be responsible for the monitoring and management of all subrecipient awards. Management and reporting requirements applied to direct recipients tier down to employees, affiliates, subrecipients, and subcontractors, and awardees will be responsible for ensuring compliance and submitting required reports to HUD. Also, for State and local governments, awards will be governed by 24 CFR Part 85.

HUD's regulations at 24 CFR 85.36(f) states that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals.

HUD's regulations at 24 CFR 85.40(a) state that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable Federal requirements and that performance goals are achieved. Grantee monitoring must cover each program, function, or activity.

The State's work plan, Identification and Selection of Properties, states that assisted property owners must meet the following stipulation: Property taxes on the assisted unit(s) must be current, or if there are arrearages, an agreement for repayment must be in place with the county treasurer's office. The assistance will be secured by a lien against the assisted property due upon transfer of property or forgiven overtime.